



BAC 7710-FW-P

POSTAL REGULATORY COMMISSION

[Docket No. PI2020-1; Order No. 5260]

Public Inquiry

AGENCY: Postal Regulatory Commission.

ACTION: Notice.

SUMMARY: The Commission is suggesting modifications and enhancements to the current estimation methodology to account specifically for recent Postal Service data changes, and for any other aspects of the monopolies estimation methodology. This document informs the public of this proceeding and the technical conference, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* November 1, 2019.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Those who cannot submit comments electronically should contact the person identified in the **FOR FURTHER**

INFORMATION CONTACT section by telephone for advice on filing alternatives.

FOR FURTHER INFORMATION CONTACT: David A. Trissell, General Counsel, at 202-789-6820.

SUPPLEMENTARY INFORMATION:

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I. Introduction

In its Annual Report, the Commission estimates both a value for the Postal Service combined letter and mailbox monopolies, which are jointly referred to as the postal monopoly, and a separate value for the mailbox monopoly alone.¹ The current methodology estimates the hypothetical lost profit to the Postal Service if potential competitors were allowed to enter and compete in the Postal Service's letter and mailbox monopolies. FY 2018 Annual Report at 53-54. The Commission is soliciting comments and suggestions for modifications and enhancements to the current estimation methodology to account specifically for recent Postal Service data changes, and for any other aspects of the monopolies estimation methodology.²

II. Background

On December 19, 2008, the Commission transmitted to Congress and to the President a *Report on Universal Postal Service and the Postal Monopoly*³ as

¹ See PRC *Annual Report to the President and Congress Fiscal Year 2018*, January 10, 2019, at 53-54 (FY 2018 Annual Report).

² In this proceeding as in previous related Dockets, the Commission continues to solicit comments and participation of interested parties on the methodology to estimate the value of the Postal Service monopolies. See Docket No. PI2008-3, Notice and Order Providing An Opportunity to Comment, April 18, 2008 (Order No. 71); Docket No. PI2009-1, Notice and Order Providing an Opportunity for Comment, December 19, 2008 (Order No. 152).

³ PRC *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008 (Report). The Commission was assisted in this undertaking by a team of experts assembled by the School of Public Policy at George Mason University (GMU) and by GMU's Center for Social Science Research.

required by section 702 of the Postal Accountability and Enhancement Act (PAEA), Pub. L. 109-435, 120 Stat. 3218 (2006).⁴ In its Report, the Commission first estimated the annual value of the combined letter and mailbox monopolies to be \$3.48 billion and the value of the mailbox monopoly alone to be \$1.33 billion for FY 2007. See Report at 144; Order No. 152. Since then, although not required to do so by statute, the Commission also publishes in its Annual Report updated estimates for the values of both the combined letter and mailbox monopolies and the mailbox monopoly alone using the base case assumptions and methodology outlined in its Report. See Report at 143-152. The estimates for the value of the monopolies vary each year depending on changes in delivery costs, volumes, and revenues. See, e.g., FY 2018 Annual Report at 53.

Section 702(a)(1) of the PAEA uses the term “postal monopoly” to include both the Postal Service’s monopoly on the delivery of mail (letter monopoly) and on access to mailboxes (mailbox monopoly). The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence.⁵ The mailbox monopoly is the Postal Service’s exclusive right to deliver to and collect from mailboxes. 18 U.S.C. 1725. For the estimated values of both the combined letter and mailbox monopolies and the mailbox monopoly alone, profits under the status quo are calculated and then compared

⁴ Section 702(a)(1) of the PAEA requires the Commission to submit a report to the President and Congress on “universal postal service and the postal monopoly in the United States...including the monopoly on the delivery of mail and on access to mailboxes.”

⁵ *Id.* The letter monopoly is codified in the Private Express Statutes. See 18 U.S.C. 1693–1699; 39 U.S.C. 601–606.

with profits without the monopoly element under review, leaving all elements of the universal service obligation (USO) in place.⁶

The estimated value of the combined letter and mailbox monopolies is a hypothetical estimate of the potential profit that the Postal Service would lose if both the letter and mailbox monopolies were lifted, and the Postal Service were subject to competition for mail currently covered by the letter and mailbox monopolies.⁷ The Commission also estimates the value of the mailbox monopoly alone because some mail is outside the letter monopoly.⁸ For example, it is lawful for private parties to deliver Periodicals, unaddressed saturation mail, catalogs over 24 pages, letters over 12.5 ounces, and parcels as these products are all not subject to the letter monopoly. FY 2018 Annual Report at 54.

Therefore, to estimate the hypothetical value of the mailbox monopoly alone, the current methodology calculates the potential decrease in Postal Service profits that would result from eliminating the mailbox monopoly while retaining the letter monopoly. *Id.* at 53-54. The current methodology for estimating the value of both the combined letter and mailbox monopolies and the

⁶ Report at 143. The Postal Service's obligation to provide "universal service" is often referred to as the USO. "Universal postal service" is the term commonly used to refer to postal service to all parts of the country. See *United States Postal Serv. v. Flamingo Indus. (USA) Ltd.*, 540 U.S. 736, at 741 (2004) (citing 39 U.S.C. 101, 403); Order No. 71.

⁷ FY 2018 Annual Report at 53; see Report at 144.

⁸ Report at 148. The value of the letter monopoly alone (retaining the mailbox monopoly) is not separately estimated. Without access to mailboxes, it is unlikely that the entrant could successfully capture mail directed to a specific person or address because those mailpieces are delivered to and collected from mailboxes. FY 2018 Annual Report at 53.

mailbox monopoly alone has been in use since FY 2009.⁹ This methodology examines Postal Service data on city and rural delivery routes to see if a private delivery firm (or entrant) could profitably deliver a portion of mail, which is termed “contestable” mail.¹⁰ The current methodology assumes that entry from a competitor would potentially occur on all routes that are most profitable for the competitor.¹¹

In the 2009 Annual Report, the Commission stated that the estimated values of the monopolies “should be viewed as upper bounds for several reasons.” FY 2009 Annual Report at 32. The Commission acknowledged the possibility that entry by a competitor may only occur on profitable routes that are co-located (e.g., multiple profitable routes are sufficiently close together to make entry into that geographic area attractive). *Id.* Given that possibility, and the current methodology that evaluates entry for each route regardless of the extent of route clustering, the Commission noted that the estimated monopoly values are likely overstated. *Id.* Additionally, the current estimation methodology does not account for any carrier route sorting costs required by potential entrants for

⁹ See PRC *Annual Report to the President and Congress*, Fiscal Year 2009, January 8, 2010, at 32-33 (FY 2009 Annual Report); Order No. 152.

¹⁰ See Report, folder “Appendices.zip,” folder “USO Appendices,” PDF file “Appendix F Section 4.pdf,” *Quantitative Analysis of the Value of the Postal and Mailbox Monopolies*, Robert H. Cohen (Analysis of Postal and Mailbox Monopolies), at 4, available at: https://www.prc.gov/prc-reports?keys=USO&field_report_type_value=All&=Apply.

¹¹ *Id.* See Report for a detailed description of the estimation methodology, SAS programs, workbooks and data files used for the Analysis of Postal and Mailbox Monopolies, folder “Workpapers and Data Files AppendixF4.zip,” folder “Workpapers and Data Files Appendix F4,” Word file “WorkpaperF4.doc.”

five digit sorted letter mail entering the system at the sectional center facility or the destination delivery unit. *Id.* The Commission noted that inclusion of these costs would also lower the extent of entry to some degree. *Id.*

On December 15, 2017, the Commission approved a methodology change to the City Carrier Cost System (CCCS).¹² In the CCCS, the Postal Service replaced the delivery point sequence (DPS) manual mail sampling for the route with a sampling method that evaluates a sample of digital images from Delivery Barcode sequence second pass operations within a ZIP Code.¹³ This new methodology creates issues related to calculating the profitability for DPS mail on city carrier routes in the current estimation methodology.¹⁴ As such, the Commission is soliciting comments and suggestions for modifications and enhancements to the current estimation methodology for both the combined letter and mailbox monopolies value, as well as the mailbox monopoly alone value, to account for the recent CCCS data changes, as well as any other potential modifications to the methodology for estimating the values of the monopolies.

III. Comments

The Commission invites public comment concerning its methodology to

¹² See Docket No. RM 2017-3, Order on Analytical Principals Used In Periodic Reporting (Proposal Nine), December 15, 2017 (Order No. 4278).

¹³ See Docket No. ACR2018, Library Reference USPS-FY18-34, December 28, 2018, at 1, 28-32.

¹⁴ The current estimation methodology uses the delivery volumes on all evaluated rural routes and uses a sample of city routes in the CCCS to estimate all city routes delivered volumes. See Report, Analysis of Postal and Mailbox Monopolies, at 9.

estimate the values of both the combined letter and mailbox monopolies and the mailbox monopoly alone reported in its Annual Report. Interested persons are invited to comment on any or all aspects of potential methodology changes.

Comments are due November 1, 2019. The Commission does not anticipate the need for reply comments at this time. Material filed in this docket will be available for review on the Commission's website, <http://www.prc.gov>.

IV. Ordering Paragraphs

It is ordered:

1. The Commission establishes Docket No. PI2020-1 for the purpose of considering potential methodological changes to the computation of the estimated values of both the combined letter and mailbox monopolies and the mailbox monopoly alone.

2. Interested persons may submit written comments on any or all aspects of the Commission's estimation methodology no later than November 1, 2019.

3. Lawrence Fenster is designated to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this Notice in the **Federal Register**.

By the Commission.

Darcie S. Tokioka,

Acting Secretary.